HUSKY OIL
Canada Ltd.

ANNUAL REPORT 1966

Canada's First Century of Progress Under a Free Enterprise Economy

1867 — Articles of Confederation established Canada's nationhood with a population of 3.5 million people. Sir John A. Macdonald, a Conservative, became the first Prime Minister.

1871 — First census recorded 3,689,257 residents in Canada, and its 3.8 million square miles makes it the third largest nation in the world.

1873 — Famous Northwest Mounted Police organized.

1885 — Last spike driven on November 7, marking completion of the Canadian Pacific Railway which linked east and west.

1890 — First gas discovery at Medicine Hat, Alberta.

1901 — Population totalled 5,371,315.

1903 — Alaskan boundary settled, giving Canada and the United States the world's longest undefended border which stretches some 5,600 miles.

1914 — Dingman oil discovery well drilled in Alberta's Turner Valley.

1920 — Population approached 8.5 million in Canada as many people began moving west.

1931 — Canada gained complete self rule from the United Kingdom by the Statute of Westminster.

1937 — Trans Canada Airlines, Canada's first airline inaugurated.

1947 — Leduc oil discovery near Edmonton, Alberta, on February 13 opened a new era for Canadian oil.

1951 — Population passed 14 million.

1959 — Canada - U.S. St. Lawrence Seaway opened.

1961 — Canada's National Oil Policy initiated. Population totalled 18.2 million.

1962 — Completion of Trans Canada Highway.

1967 — Canada's Centennial Year of Confederation. Expo 67 at Montreal, Quebec. Population surpasses 20 million.

Expectations for Canada through her Centennial Year

The gross national product recorded for 1870 totalled $459 million. It is estimated that the 1967 G.N.P. will be 130 times greater than this figure.

Mineral production, which includes petroleum, should reach $4,-450,000,000 during 1967. This amount is 70 times greater than the developed production at the turn of the century.

Canada's principal grain crop of wheat, oats, barley, rye and flax for 1967 should reach 1,770,000,000 bushels. Similar figures for 1871 were equivalent to 4% of the current rate.

Miles of paved roads should exceed 100,000 during the centennial year and reflect a tenfold expansion of travelling opportunities since 1935. About 80,000 miles of this increase have accrued in the last 20 years.

During 1967, oil production (including gas liquids) should reach 1,100,000 barrels per day. The 1947 rate was 20,000 barrels per day.

Natural gas production will have increased from 54 to 1,530 billion cubic feet per year during the 1947 to 1967 period since the Leduc discovery.

It is anticipated that the dollar value of petroleum produced during 1967 will reach $1,170,000,000. Twenty years ago similar value stood at $33,000,000.

Oil reserves should exceed 10 billion barrels during 1967 and confirm the tremendous growth that has taken place since 1947 when reserves totalled one-fifth billion barrels.

1967 gas reserves should exceed 53 trillion cubic feet, which would be 10 times greater than recorded for 1947.

1966 Annual Report

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HUSKY OIL

Canada Ltd.

Incorporated under the Canada Corporations Act

President's Report to the Shareholders

with other asphalt crude in the large consuming area surrounding the Great Lakes, including the Detroit, Toledo, Buffalo, Minneapolis and Superior refining centres.

During the last four years, Husky has spent more than $32 million in the Lloydminster area. Forecasts indicate an attractive rate of return on all expenditures in the area, plus an ability to maintain a very attractive rate of production and income beyond the end of the century.

Since the first of the year, Husky has entered into an agreement to acquire all of the oil and gas and other mineral rights to slightly more than one million acres from Canadian Pacific Oil and Gas Limited, which represents all of their rights in an area 100 miles by 65 miles. This area includes a total of some four million acres in Alberta and Saskatchewan centering on Lloydminster. Lease rentals are required under the agreement but there will be no royalties on oil or gas produced from this C.P.O.G. acreage. Recent reports by Lewis Engineering indicate that, with Husky's present position, Lloydminster should soon become a net producer of revenue so that the money which has been required for development of this area can be diverted to a vigorous exploration and acquisition program in other areas.

During 1966, Husky made several significant acquisitions. We negotiated an agreement for the purchase of one-third of the stock of Curtis Incorporated, which, in addition to other assets, owns about 54 per cent of Empire State Oil Company, located in the Big Horn Basin of Wyoming. Husky's indirect ownership of Empire State will be almost 20 per cent under the agreement. This is an aggressive, well managed company with average daily production of about 12,000 barrels in 1966, none of which is reflected in Husky's own production figures. There is a good spirit of cooperation between the two organizations and it is anticipated that earnings of both companies will be increased through our cooperative efforts in various joint ventures in both Canada and the United States.

Husky in 1966 increased ownership in Rimrock Tidelands from 77 per cent to 92 per cent and recently acquired 100 per cent ownership. Rimrock is earning in excess of $1.1 million per year.

A new jack-up type offshore drilling unit, to operate in the North Sea under a three-year contract with Gulf Oil, is being built by the John Brown Ship Company of Clydebank, Scotland. Husky will have an 80 per cent interest in this unit. It is estimated the cost of this unit will be approximately $10 million, and forecasts indicate an excellent return on the capital involved.

We have increased our ownership in Gate City Steel from 50 per cent to 82 per cent, which allows the earnings of this company to be consolidated for tax purposes. Net profit of Gate City Steel was expected to be approximately $1,250,000 for 1967. This should increase with the acquisition of new facilities in the Davenport, Iowa area early in 1967.

Several lesser acquisitions were made, all of which were carefully screened to ensure justifiable rates of return on capital.

Husky is in a most promising position for the future. The Company's increasing cash flow is almost evenly divided between Canada and the United States, which puts us in a good position to profit from opportunities on either side of the world's longest unguarded boundary which separates the two greatest free enterprise nations.

These two countries complement each other in so many ways. Canada's reserves of oil are increasing rapidly, while reserves in the United States continue to decline in relation to the country's expanding markets. Surely these sister nations should recognize the need for and the benefits to be gained from cooperation in the years ahead.

Husky is proud to be a part of the economy of these two nations and to salute Canada in her Centennial Year.

Sincerely,

Glenn E. Nielson

GLENN E. NIELSON, *President*

HIGHLIGHTS OF THE YEAR

FINANCIAL	1966	1965	1964	1960
Gross operating income	$66,943,000	$53,237,000	$50,524,000	$38,271,000
Cash flow	16,338,000	12,900,000	10,027,000	4,791,000
Net earnings (loss)	6,513,000	5,102,000	3,519,000	(2,215,000)
Equivalent per common share	81¢	69¢	48¢	(41¢)
Growth expenditures	30,888,000	21,516,000	24,213,000	12,087,000
Working capital at end of year	15,783,000	12,094,000	19,404,000	8,924,000
Long term debt and deferred income at end of year	52,287,000	43,830,000	47,904,000	29,686,000
Briquetting sales	2,444,000	1,742,000	1,462,000	434,000 (1961)
Net earnings (loss) of Rimrock Tidelands, Inc.	1,169,000	1,211,000	817,000	(817,000)

OPERATIONS	1966	1965	1964	1960
Crude oil and equivalent gas production (barrels daily)	25,532	20,181	16,765	9,477
Net oil and equivalent gas reserves (barrels)	251,700,000	235,600,000	160,000,000	100,000,000
Lloydminster blend sales (barrels daily)	13,145	8,970	6,500	—
Refinery runs (barrels daily)	18,387	16,929	15,789	14,000
Refined product sales (barrels daily)	19,323	18,295	18,343	15,921
Number of sales outlets	751	735	679	524

Acquisitions and Exploration

Husky enjoyed continued success during 1966 in the constant search for reserves of oil and gas by purchase, trade and conventional exploration methods.

A total of 54 exploratory wells were drilled during the year by the company and its subsidiaries. Eighteen exploratory wells were completed as producers. An additional 79 "slim-hole" stratigraphic tests were drilled in the Lloydminster area of Saskatchewan, and 24 of these indicated the presence of oil or gas.

Exploration efforts for several years have been concentrated in certain areas with favorable market prospects. Husky anticipates increased exploratory efforts in other promising market areas during the next two to four years. This expansion of exploration activity is now under careful consideration.

During 1966, Husky completed several acquisitions in addition to closing the joint purchase with Depco, Inc., of the assets of International Oil & Gas Corporation, Denver. Husky holds a one-half interest in the former International properties.

A one-third interest was acquired in Curtis, Incorporated, a family holding company which owns 54 per cent of Empire State Oil Company, Thermopolis, Wyoming. Empire State holds exploratory and producing acreage in Canada and the United States.

Husky also purchased the interest of P.A.T. Operators Ltd. in the Aberfeldy, Saskatchewan, waterflood unit; the interest of Fosca Oil Company Ltd. in waterflood units one, two, five and six at Wainwright Alberta; and the gas reserves of Pennzoil in Central Alberta.

ACREAGE

At the end of 1966, Husky held a total of 2,100,000 net exploratory acres in North America and an additional 40,000 net acres in the North Sea off the coast of Great Britain.

Exploration acreage was increased in the early part of 1967 by an agreement with Canadian Pacific Oil and Gas Limited, under which Husky obtained a long term renewable lease on lands in the Lloydminster area free of royalties on oil and gas production. The acquisition included 232,000 acres previously held by option and lease from C.P.O.G. under other agreements. The net addition of 847,000 acres increased our net exploration acreage in North America to 2,947,000.

Husky Oil President Glenn E. Nielson signs long term lease agreement with Canadian Pacific Oil and Gas Limited covering mineral rights on approximately one million acres of land in Alberta and Saskatchewan, centred on Lloydminster. Looking on is J. M. Taylor, general manager of CPOG.

PRODUCTION

Oil and equivalent gas production increased 27 per cent in 1966 to an average of 25,532 barrels per day compared with 20,181 barrels per day in 1965. Development drilling, acquisitions, and successful waterflood projects contributed to increased production.

Industry statistics for 1966 indicate that Husky drilled more wells in Canada than any other company. Husky drilled a combined total of 220 exploratory, development and service wells in Canada and the United States during the year. Included were 144 development wells, of which 128 were oil producers, three were gas wells and 13 were abandoned. In addition, 22 water injection and water source wells were drilled to service secondary recovery projects.

Emphasis has continued on conventional secondary recovery projects as well as research and field experimentation in steam and other secondary recovery methods. Encouraging results have been experienced. Full-scale waterflood programs are in the early stages in the Dodsland, Saskatchewan, field and in selected fields of the Lloydminster area.

EXPLORATORY ACREAGE HOLDINGS AT DECEMBER 31

	(thousands of net acres) 1966	1965
CANADA:		
Alberta	371	380
British Columbia	5	109
Saskatchewan	945	1,208
Arctic Islands	538	538
Total Canada	1,859	2,235
UNITED STATES:		
Alaska	56	60
Rocky Mountain Area	182	192
Southwestern States	1	5
Other Areas	2	3
Total U.S.A.	241	260
FOREIGN:		
Tunisia (held by Husky)	—	672
Tunisia (held by Rimrock)	—	437
North Sea	40	40
Total Foreign	40	1,149

NET OIL AND EQUIVALENT NATURAL GAS PRODUCTION

	(thousands of barrels) 1966	1965	*% Change*
CANADA:			
Alberta	2,120	1,912	11
Saskatchewan	1,213	1,142	6
Lloydminster	2,172	1,546	40
Total Canada	5,505	4,600	20
UNITED STATES:			
Colorado	476	456	4
New Mexico	604	—	—
Texas	424	351	21
Wyoming	2,021	1,727	17
Other Areas	132	102	29
Rimrock Tidelands	157	130	21
Total U.S.A.	3,814	2,766	38
Total	9,319	7,366	27

One of Husky's portable steam units was displayed at the Canadian Petroleum Exposition which was held in conjunction with the 1966 Calgary Exhibition and Stampede.

Lloydminster

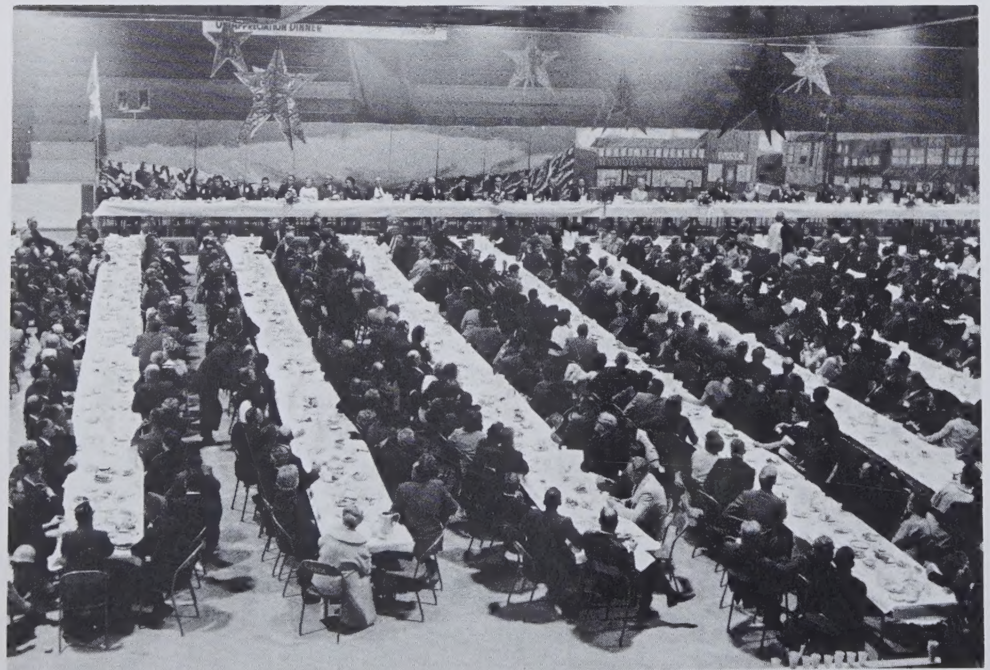
The Company has invested more than $32 million in the Lloydminster Project since the beginning of 1963. Programs have included pipeline construction, purchase of production, exploration, development, secondary recovery, field gathering systems and refinery modifications.

During 1966, secondary recovery waterflood projects were initiated in two fields, including a portion of the Aberfeldy, Saskatchewan, unit in which Husky holds an interest of approximately 94.5 per cent. The portion under waterflood is estimated to contain in excess of 67,000,000 barrels of oil in place, which is considered to be about one-third of the oil in place in the entire Aberfeldy field as presently designated.

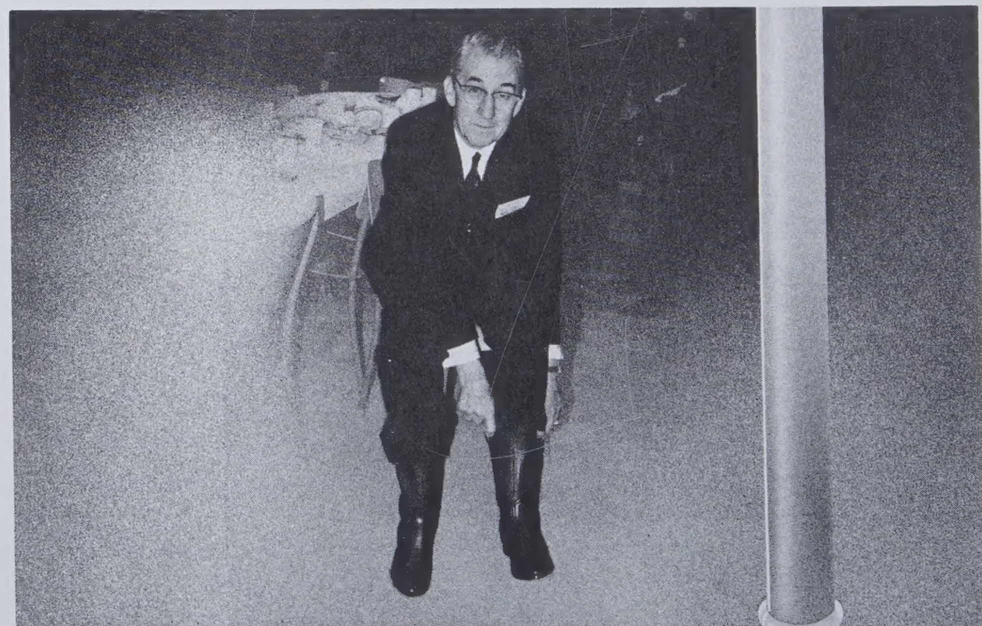
Husky owns in excess of 60 per cent of the production in the Lloydminster area and holds 712,000 net acres in the Lloydminster-Wainwright-Chauvin areas. These areas contain more than 450 proven and probable drilling locations for future development. Future exploration and development plans anticipate the drilling of 100 or more wells annually in these areas during the next several years.

NET OIL AND GAS PRODUCTION

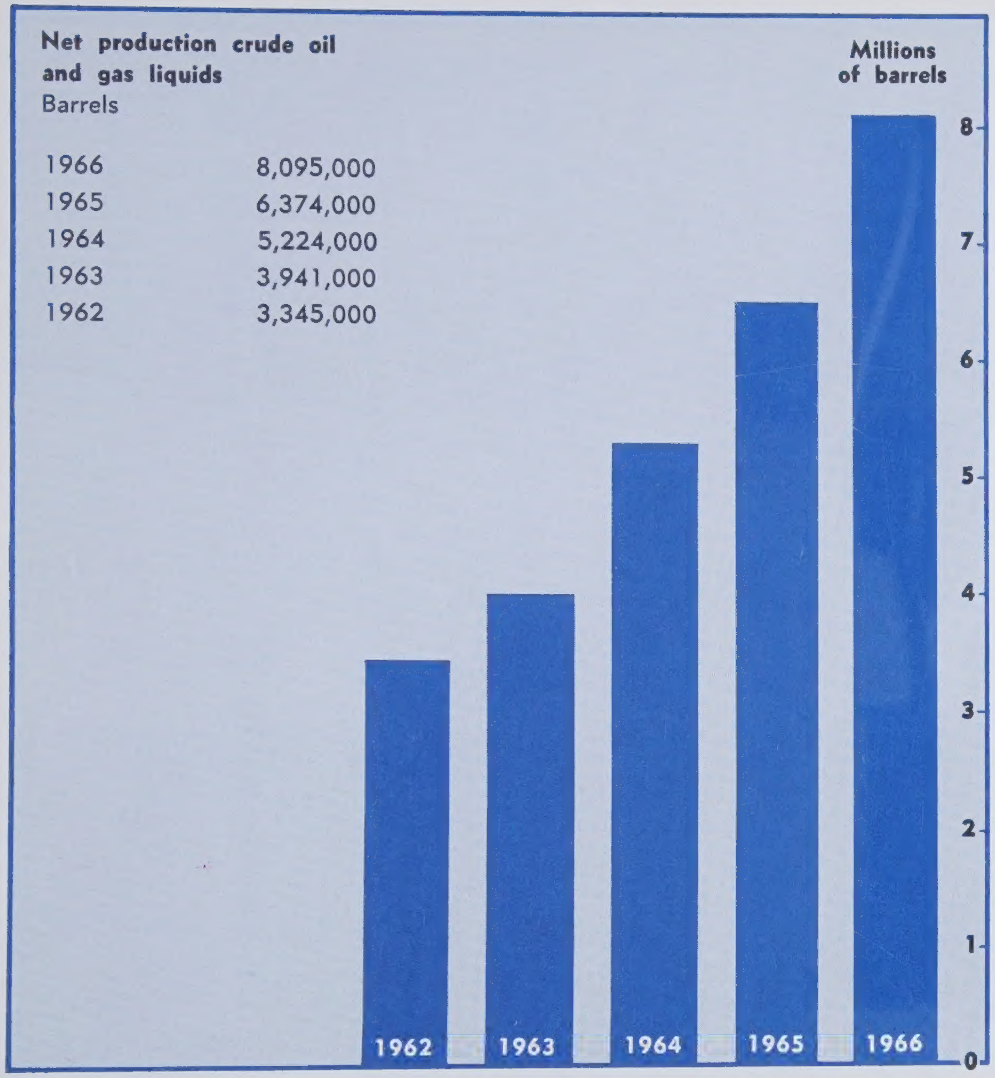
	(thousands of barrels) Oil and Gas Liquids		*(millions of cubic ft.) Natural Gas*	
	1966	1965	1966	1965
CANADA:				
Alberta	1,630	1,422	6,134	6,126
Saskatchewan	898	829	3,943	3,910
Lloydminster	2,131	1,528	504	222
Total Canada	4,659	3,779	10,581	10,258
UNITED STATES:				
Colorado	427	391	730	974
New Mexico	387	—	3,257	—
Texas	369	319	823	485
Wyoming	1,984	1,676	560	767
Other Areas	130	85	23	259
Rimrock Tidelands	139	124	275	95
Total U.S.A.	3,436	2,595	5,668	2,580
Total	8,095	6,374	16,249	12,838



Some 1,000 residents of the Lloydminster area attended a special "Oil Appreciation Banquet" in October of 1966 commemorating the industry's contribution to the area. President Glenn E. Nielson was the principal speaker. The occasion also marked Husky's 20th year of operations at Lloydminster.



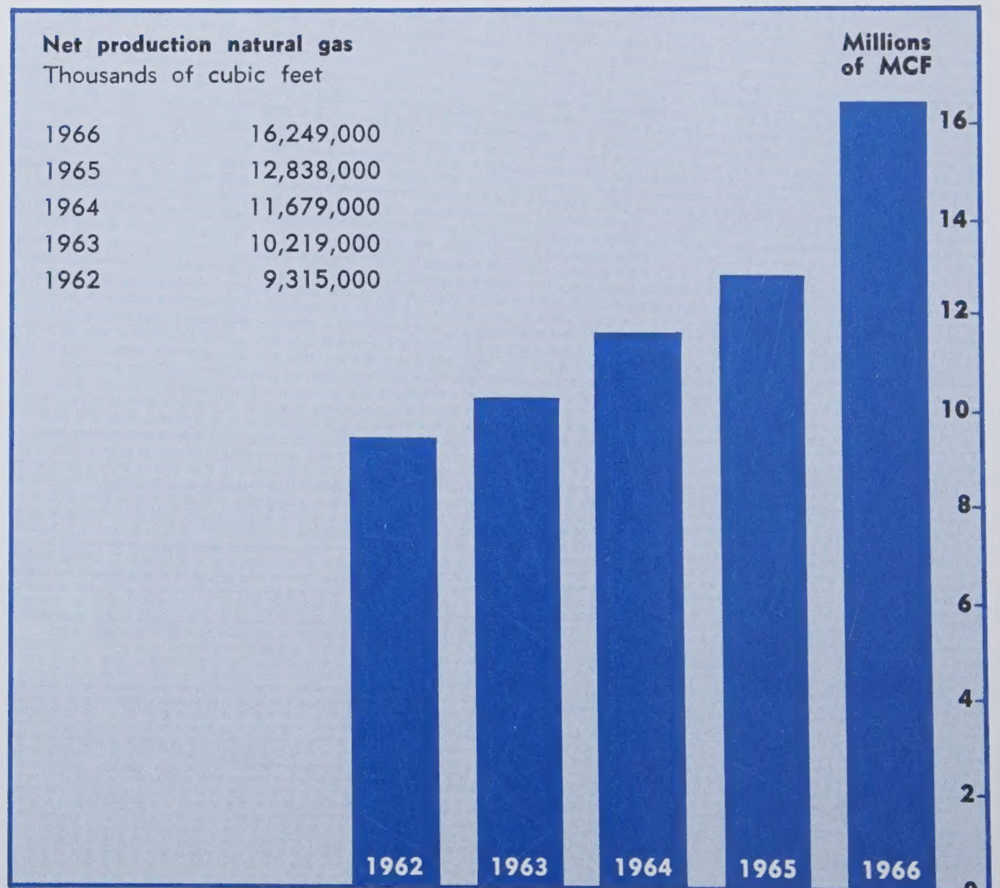
Mr. Nielson tries on the western riding boots presented to him by the Lloydminster and District Chamber of Commerce as a token of appreciation. The proud new owner became a member of the Lloydminster Boots and Saddle Club and is only the third recipient of this honor. Past presentations were made to Premier Ross Thatcher of Saskatchewan and Honorable A. O. Aalborg, Provincial Treasurer of Alberta.



Net Reserves

Husky's estimated net reserves increased to approximately 251,700,000 barrels of oil and equivalent gas at September 30, 1966. Reserves have been added since that date. This compares with 235,600,000 barrels at the end of 1965, according to independent reports by the James A. Lewis Engineering Companies, petroleum reservoir analysts of Dallas, Texas, and Calgary, Alberta.

More than half of the increase in net reserves was recorded in the proved category. Based on 1966 rates of production, it is estimated that the Company's proved and probable recoverable reserves are equivalent to a supply of 20 years with respect to oil and 24 years with respect to gas.

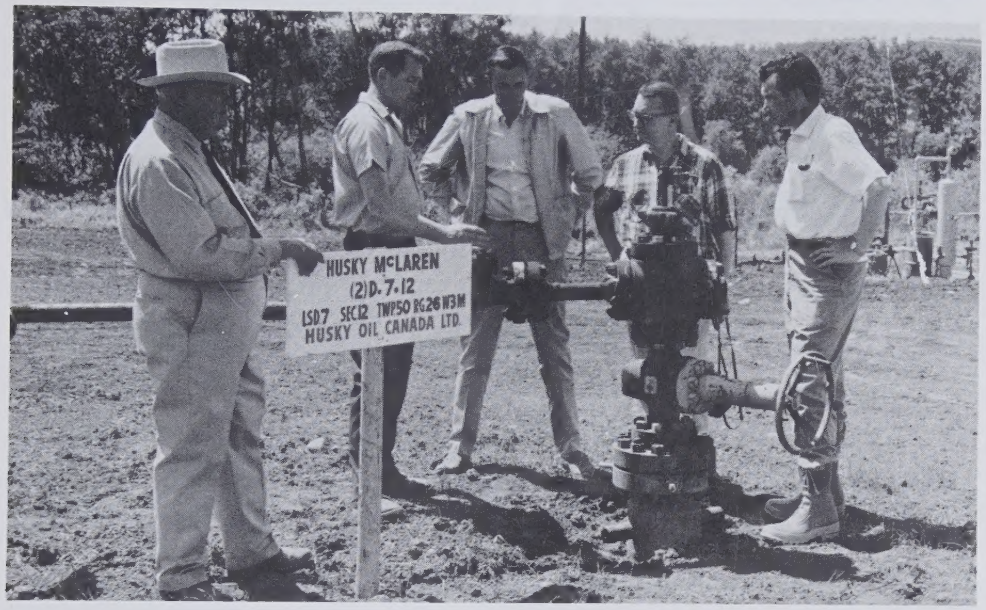


NET RESERVES OF OIL AND EQUIVALENT NATURAL GAS

	(thousands of barrels)			
	Proved	*Probable*	*Possible*	*Total*
Canada - Lloydminster	42,900	19,100	39,700	101,700
- Other	57,800	16,800	16,200	90,800
	100,700	35,900	55,900	192,500
United States	44,800	9,400	5,000	59,200
	145,500	45,300	60,900	251,700

SUMMARY OF WELLS DRILLED IN 1966

	Gross Wells				*Net Wells*			
	Oil	*Gas*	*Dry*	*Total*	*Oil*	*Gas*	*Dry*	*Total*
Exploratory Drilling	17	1	36	54	15.3	.5	27.8	43.6
Development Drilling	128	3	13	144	89.9	3.0	9.1	102.0
Total Drilling	145	4	49	198	105.2	3.5	36.9	145.6



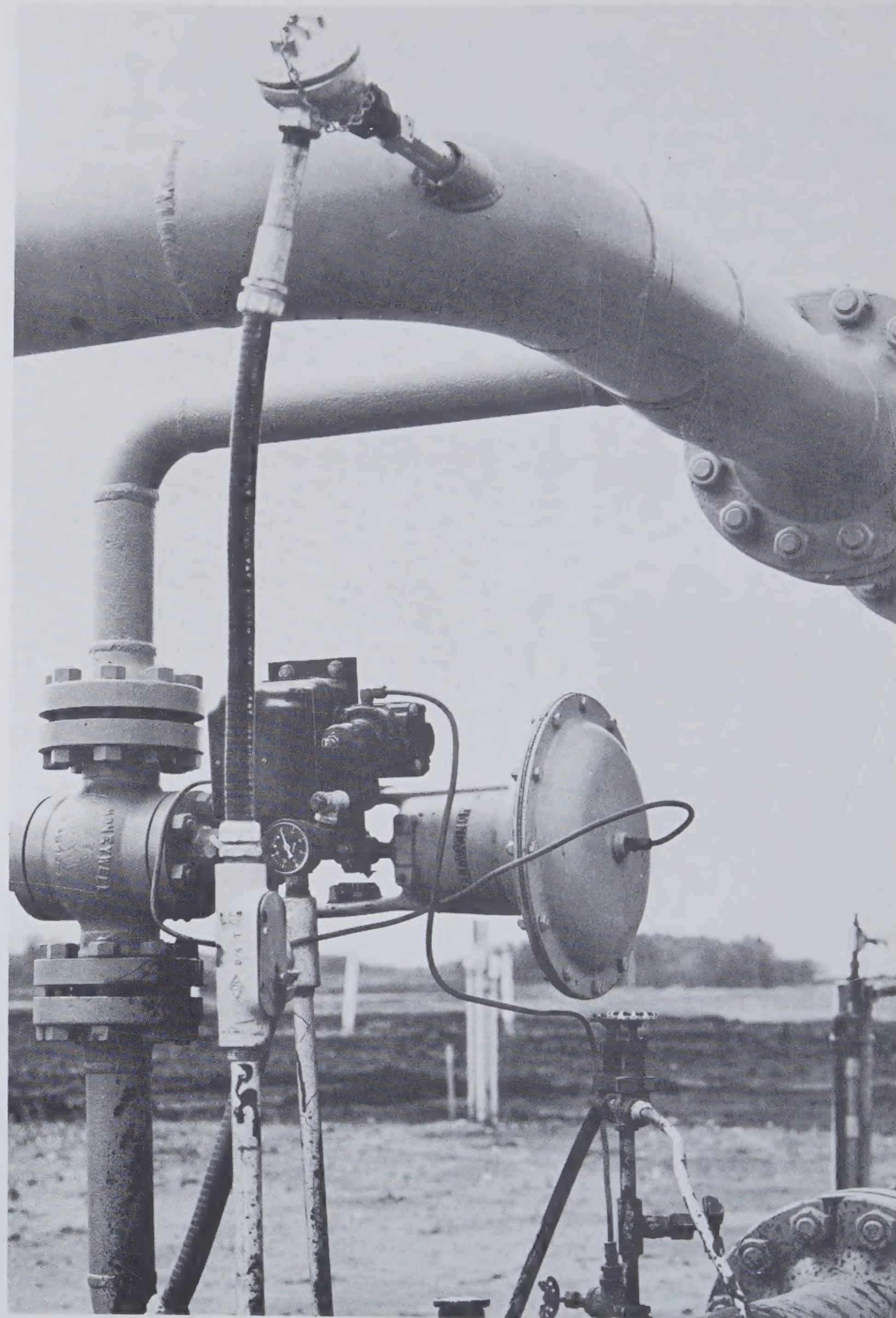
A steam injection well is visited by newspaper representatives.

Pipeline Interests

Sales of Lloydminster heavy crude blended with condensate increased to an average of 13,145 barrels daily in 1966 compared with 8,970 barrels daily in 1965. The blend is transported by Husky's dual pipeline from Lloydminster to the Hardisty, Alberta, terminal of the Interprovincial Pipe Line for shipment to eastern customers who use it for manufacture of asphalt products to meet high specifications.

Development of the blending process and construction of Husky's pipeline system have opened a large market area for Lloydminster crude encompassing the entire Great Lakes region of Canada and the United States. Demand for asphaltic crude in this large region indicates the Company can continue to increase its production capacity in the Lloydminster area.

The pipeline from Lloydminster to Hardisty, Alberta, is wholly-owned by Husky. Other pipeline interests in Canada and the United States are minority holdings and are not consolidated. Like the Husky pipeline, they continue to increase their scope of operations.

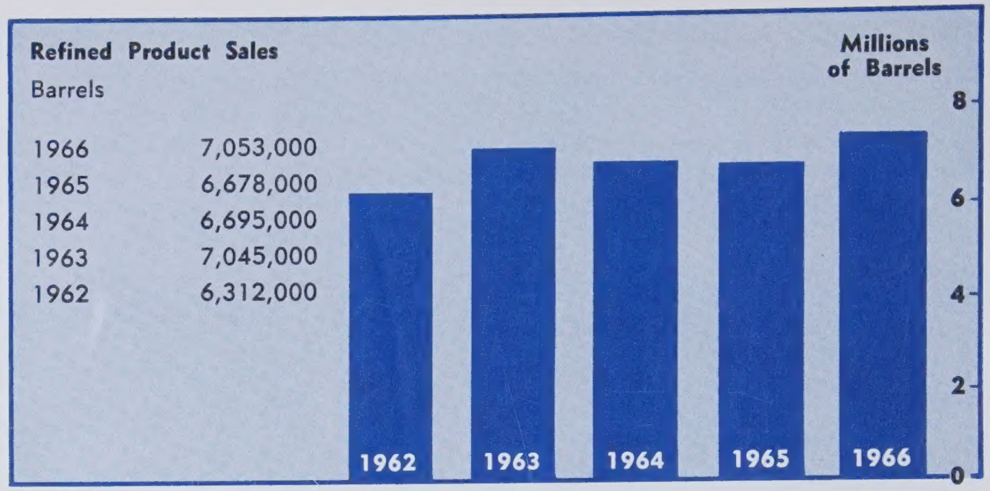


Valves and gauges form this view of part of the automated controls of Husky's 72-mile dual pipeline between Lloydminster and Hardisty, Alberta.

REFINING & MARKETING

Husky's three refineries operated at approximately 97 per cent of the stream day capacity throughout 1966. Throughput increased nine per cent to an average of approximately 18,400 barrels daily. Total marketing volume of 19,323 barrels per day rose six per cent over the 18,295 barrels averaged daily during 1965.

The Company was pleased to give recognition to the employees of the Moose Jaw refinery for compiling a safety record of nearly eight continuous years without a lost-time injury. Prime emphasis is placed on efficiency and safety in refinery and other Company operations.



REFINERY RUNS

	(thousands of barrels) 1966	1965
Refinery:		
Cody, Wyoming	3,846	3,673
Lloydminster, Alberta	1,798	1,523
Moose Jaw, Saskatchewan	1,067	983
	6,711	6,179

Sales of asphalt increased in 1966 as a result of more favorable weather which created a demand for earlier than normal shipments. In addition, continuing highway construction programs maintained demand for asphalt at a high level for surfacing of principal as well as secondary routes linking the main highways. Husky continues to be the largest producer of asphalt between the Rocky Mountains and the Great Lakes in both Canada and the northern United States.

This Lloydminster Travelcentre is one of Husky's 751 sales outlets.

LIGHT OIL SALES

Light oil products marketed through Company outlets in both countries recorded an increase of two per cent during 1966 over the previous year. Husky had a total of 751 sales outlets at year-end, compared with 735 at the end of 1965. Company outlets include 48 large "one-stop" highway service centres. These are located strategically on heavily travelled highways in both countries.

HUSKY SALES OUTLETS

Marketing Division	*Service Stations*	*Bulk Plants*	*Total*
Calgary	205	47	252
Billings	118	50	168
Spokane	162	40	202
Fort William	112	17	129
	597	154	751

Known as "Travelcentres" in Canada and as "Husky Superstops" in the United States, these outlets include restaurants, lounge and sleeping facilities, and truck service bays designed to accommodate automobile and truck trailers of up to 60 feet in length.

A Husky tank truck dealer fills up at Husky's refinery at Lloydminster.

OTHER INTERESTS

Briquetting

All briquetting operations in Canada and the United States were consolidated during 1966 under Husky Briquetting, Inc., a wholly-owned subsidiary. Total sales rose 40 per cent to $2,444,000 in 1966 over sales of $1,742,000 the preceding year. Over-all operations in 1966 reached an approximate break-even point in profit for the first time.

Sales efforts were strengthened in 1966 by the appointment of a vice president of marketing and the opening of a new sales office for eastern Canada and the United States. The Company produces and markets charcoal briquets, lump charcoal, domestic briquets and char.

A rack of Husky Briquets are on their way to some future customer's grill.

Contract Drilling

Husky's ownership of Rimrock Tidelands, Inc., was increased in 1966 to 92 per cent from 77 per cent, through purchases of additional shares from minority shareholders, and subsequently, Husky has acquired 100 per cent ownership.

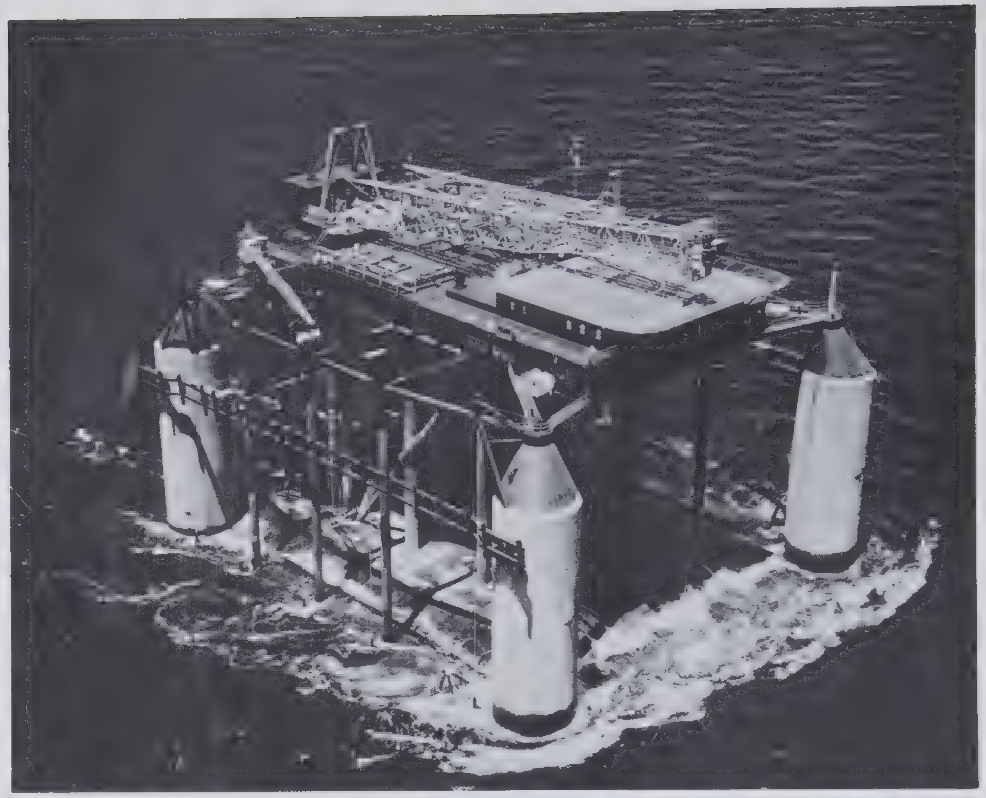
Net profit of this contract drilling subsidiary decreased slightly to $1,169,000 in 1966 as a result of foreign exploration writeoffs on Tunisian acreage which was surrendered and suspension of operations on two foreign based land rigs which had completed drilling contracts.

In addition to the three Rimrock offshore drilling rigs under contract to major operators in the Louisiana Gulf Coast area, Husky has contracted for the construction of a new jack-up type offshore drilling unit in which the Company holds an 80 per cent interest.

The new unit is being built in Scotland at a total estimated cost of $10,000,000. It is expected to be in operation around the end of 1967 and will be employed initially in the North Sea area under a three-year contract with Gulf Oil Production Company, a subsidiary of Gulf Oil Corporation.

The new unit is the 25th rig to be built under the Offshore-DeLong patent held by The Offshore Company of Houston, Texas, which is providing plans and supervising construction. The new unit measures approximately 180 feet in length and 150 feet in width, stands on four retractable legs, will be capable of drilling to depths in excess of 20,000 feet, and can operate in water depths of 200 to 250 feet.

Two trucks were employed to move this steel structure which was fabricated by Gate City Steel Corporation.



Under tow to a new location in Louisiana Gulf Coast waters is one of three offshore rigs operated by Rimrock Tidelands.

Steel Fabricating & Service

Ownership of Gate City Steel Corporation was increased by Husky from 50 to 82 per cent as of August 31, 1966. This permits consolidation of its income for U.S. tax purposes and requires consolidation in Husky's financial statements for the last four months of 1966. Gate City's net profit before taxes increased 26 per cent to $910,000 in 1966, compared with $724,000 in 1965.

Gate City Steel is engaged in the fabricating and warehousing of steel products and operates sales and service outlets for heavy equipment. The company's primary marketing areas are Idaho, Colorado, Nebraska, and Louisiana. Plants and service centers are located at Baton Rouge, Louisiana; Boise and Pocatello, Idaho; Denver, Colorado; and Omaha, Nebraska, where the firm is headquartered.

The acquisition of the assets of Midwest Metals Corporation in March of 1967 added steel servicentre and reinforcing bar fabrication plants at Davenport, Iowa and Sterling, Illinois.

Phosphate Deposits

The agreements between Husky and International Minerals & Chemical Corporation regarding Husky's phosphate deposits near Soda Springs, Idaho, have been extended. Under the present agreements with IMC, Husky has several options in the event joint development is not carried out. These include repayment of a $3,000,000 loan and a retention of a 75 per cent interest, or Husky can sell its interest in the property to IMC for $3,000,000 plus one-half of the appraised value in excess of this amount. The deposits contain one of the largest known reserves of surface mineable phosphate ore in the United States, with proved reserves estimated in excess of 70 million tons and should be worth substantially more than $3,000,000.

THE HUSKY TOWER

Construction has commenced on the 600-foot Husky Tower and revolving restaurant in downtown Calgary, Alberta, following unexpected delays which have postponed the completion date to 1968. Ownership plans have been changed so that Husky and Marathon Realty Company Ltd., each holds a 50 per cent interest in the project. A new company, Husky Tower Ltd., has been formed by Husky and Marathon Realty to develop and manage the Husky Tower.

FINANCIAL REVIEW

Husky Shareholders

Husky common shares outstanding at the end of 1966 totalled 6,431,476 held by 10,190 owners residing in practically every province of Canada and every state in the United States, as well as in various foreign countries. The Company also had a total of 555,403 $50 par value preferred shares issued and outstanding at year end. At the end of 1965, the number of shares outstanding totalled 6,243,843 common and 263,413 preferred.

Husky common shares enjoy a special exemption from the United States Interest Equalization Tax. This exemption permits U.S. citizens and residents to buy and sell the Company's common shares as if they were shares of any U.S. company.

First Common Share Dividend

Husky paid its first common share dividend of 15 cents per share for the last half of 1966, as approved by the Board of Directors at their August meeting. The initial dividend was paid on September 30 to common shareholders of record as of September 15, 1966.

The Husky Office buildings in Calgary, Alberta and Cody, Wyoming, were remodelled during the past year. The new look of the reception areas pictured has been well received by our customers and employees.

Operating Results

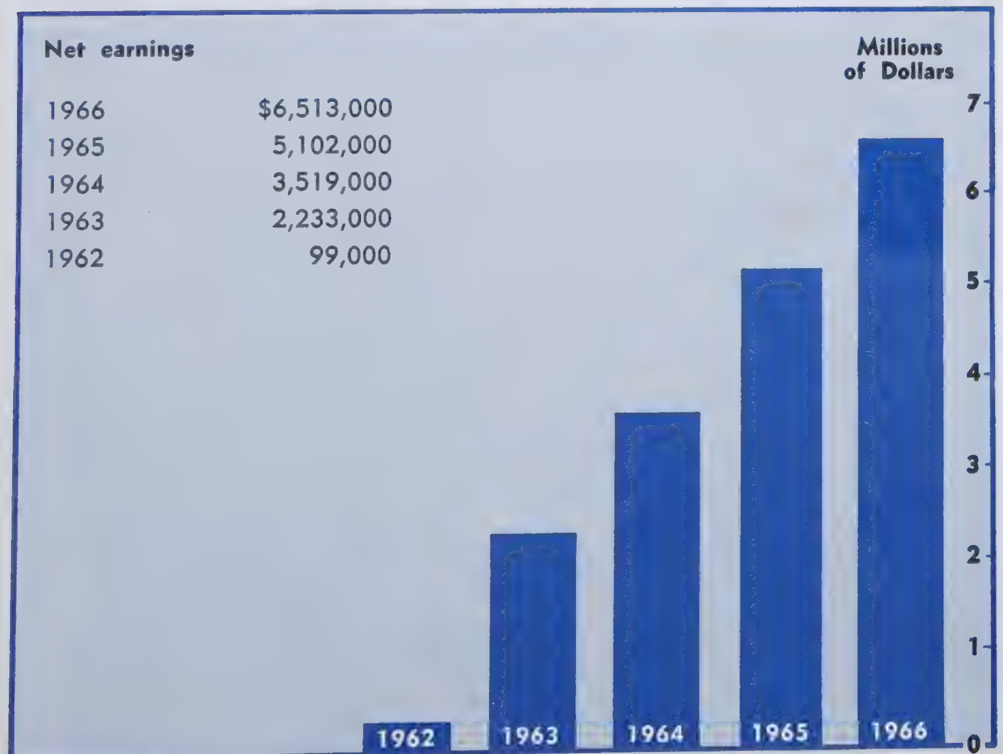
Consolidated net profit of the Company increased 28 per cent to $6,513,000 in 1966 over $5,102,000 in 1965. Sales and operating revenues of $66,943,000 were up 26 per cent. Cash flow rose 27 per cent to $16,338,000.

On a common share basis, Husky's 1966 earnings were equivalent to 81 cents per share after preferred share dividends, an increase of 17 per cent over 1965 earnings of 69 cents per share. This increase was in line with expectations as expressed early in the year.

Consolidation of Gate City Steel Corporation for the last four months of 1966 had the effect of changing financial ratios, since this operation involves a larger sales volume per dollar invested and a lower profit margin on sales. The consolidation accounted for 53 per cent of the increase in Company revenues, 70 per cent of the increase in cost of sales, and 21 per cent of the increase in net earnings.

New Financing

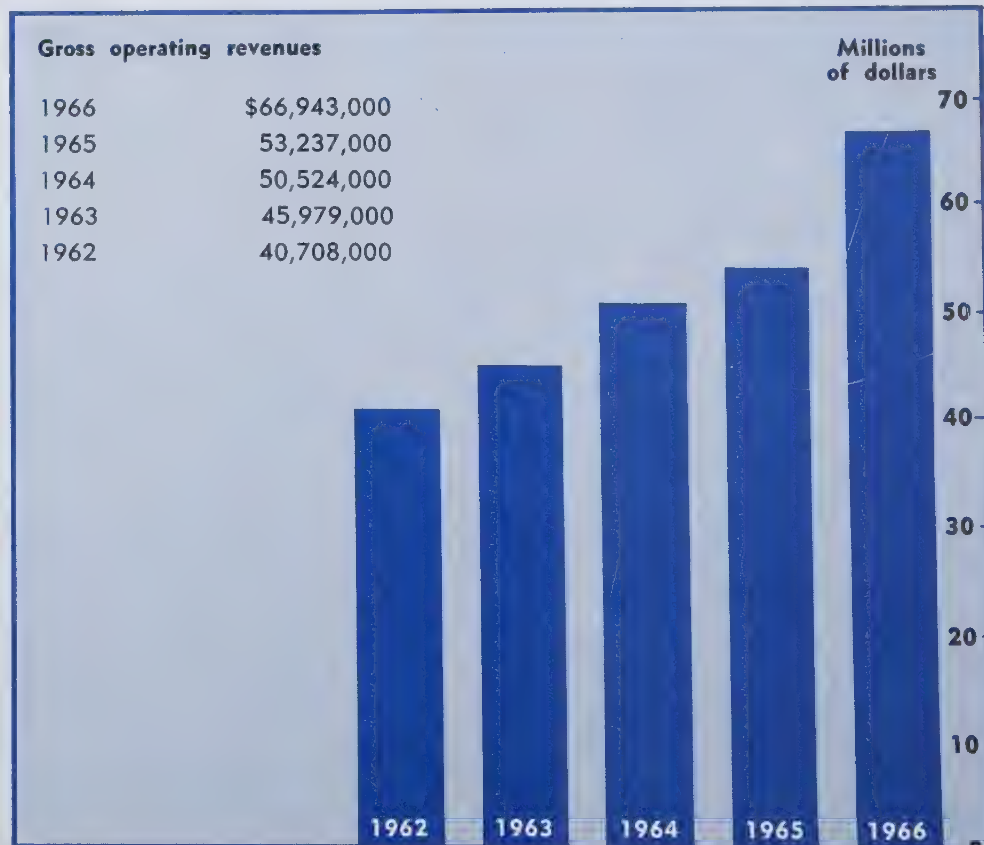
Following approval by shareholders of a by-law authorizing an additional $30,000,000 in preferred shares, at the 1966 Annual Meeting, the Company early in 1966 sold a $15,000,000 issue of 5¾% Series C Cumulative Redeemable Convertible Preferred Shares. The Sinking Fund is three per cent annually.



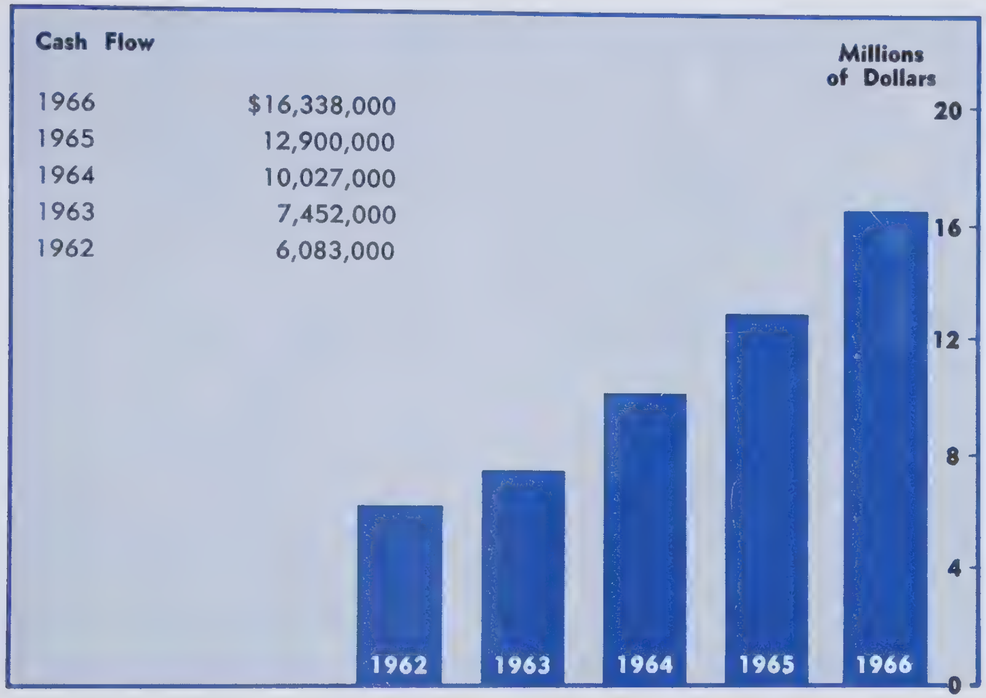
Graduated conversion prices of the Series C Convertible Preferred Shares were stipulated at $15 per common share through May 9, 1971, and at $17.50 through May 9, 1976.

In March of 1966, Husky increased an existing production loan on United States properties by $7,500,000. This was secured by the rising loan value of producing properties previously pledged and by pledging a minimum amount of additional producing properties. The Company also arranged for an unsecured loan of approximately $3,-500,000 in Great Britain as partial financing for the new offshore drilling rig being constructed in Scotland. This loan bears interest at 5½% and is repayable over approximately eight years.

Early in 1967, the Company sold a $20,000,000 issue of 6¾% Series B Sinking Fund Debentures with 240,000 Stock Purchase Warrants identical to those already listed on the Toronto and Montreal Stock Exchanges. The Company is required to provide a Sinking Fund for the retirement of $250,000 in each of the first five years, $600,000 in each of the next five years, then $750,000 per year until maturity. About 55 per cent of the issue is scheduled to be retired before maturity in 1987.



As a result of these financing arrangements, available funds are more than sufficient for planned 1967 expenditures. However, when required, an additional $15,000,000 is available through established bank lines of credit.



Growth Expenditures

Husky's growth expenditures totalled $30,888,000 in 1966 compared with $21,516,000 in 1965. Present plans are to spend about $30,000,000 in 1967, including approximately $10,000,000 for the new offshore drilling unit.

Source and Use of Funds

Work programs for the year, amounting to $30,888,000, included $17,713,000 for increasing oil and gas reserves and for related facilities. The purchase of shares of Curtis, Incorporated, Gate City Steel and Rimrock Tidelands was made at an aggregate cost of $7,665,000. Working capital increased $3,689,000 at year end and was further increased by the issue of debentures in the amount of $20,000,000 early in 1967.

COMPARATIVE STATEMENT OF SOURCE AND USE OF FUNDS

	(thousands of dollars) 1966	1965
Funds were obtained from:		
Net earnings	$ 6,513	$ 5,102
Add:		
Depreciation and depletion	9,319	7,318
Foreign exploration costs written off	276	107
Minority interests in profits	230	373
Cash flow from operations	16,338	12,900
Net increase (decrease) in long term debt	2,747	(1,693)
Issue of preferred shares—net of costs of issue	14,328	200
Issue of common shares	457	179
Sale of capital assets	672	527
Decrease in notes receivable	292	4,238
Increase in working capital on acquisition of subsidiaries	4,639	—
	39,473	16,351
Funds were used for:		
Growth expenditures	30,888	21,516
Application to production payments	1,081	81
Preferred share retirement	941	893
Dividends on shares of parent company—		
Preferred	1,331	807
Common	961	—
Other	582	364
	35,784	23,661
Increase (decrease) in working capital	$ 3,689	$(7,310)

GROWTH EXPENDITURES

	(thousands of dollars) 1966	1965
Exploration	$ 2,430	$ 3,364
Development and acquisition of producing properties	14,100	9,448
Pipeline facilities	1,183	2,621
Refining, manufacturing and other facilities	1,192	926
Marketing additions and improvements	1,905	2,162
Drilling equipment	2,413	957
Investment in shares of subsidiary and affiliated companies	7,665	2,038
	$30,888	$21,516

HUSKY OIL

Canada Ltd.

And Subsidiaries

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1966

(with comparative figures at December 31, 1965)

Assets

	1966	1965
CURRENT ASSETS		
Cash and short term deposits	$ 7,629,301	$ 3,148,395
Marketable securities—at cost which approximates market	132,888	171,914
Notes and accounts receivable, less allowance for doubtful accounts	12,324,856	10,614,482
Inventories at lower of cost or replacement market	12,709,785	6,961,511
Prepaid expenses	369,710	460,789
Total current assets	33,166,540	21,357,091
NON-CURRENT ASSETS		
Notes and contracts receivable, less amounts due within one year included in current assets above	1,562,435	1,691,447
Investment in shares of affiliated company—at cost (Note 9)	2,801,601	1,497,302
Sundry investments and miscellaneous assets—at cost less amounts written off	1,387,591	1,353,566
	5,751,627	4,542,315
PROPERTY, PLANT AND EQUIPMENT (Note 2)		
Oil and gas properties and equipment	96,416,880	70,926,631
Refining, manufacturing, marketing, transportation facilities and other assets (including land of $3,796,399)	55,615,177	47,494,783
Drilling rigs and equipment	11,046,077	8,770,539
	163,078,134	127,191,953
Less accumulated depreciation and depletion	51,808,291	43,848,738
	111,269,843	83,343,215
Less unpaid production payments	13,733,353	2,036,336
	97,536,490	81,306,879
OTHER ASSETS—at cost less amounts written off		
Debt discount and expense	952,203	1,011,849
Trade marks	590,001	590,001
Other intangible assets	3,465,308	1,351,369
	5,007,512	2,953,219
	$141,462,169	$110,159,504

Approved on behalf of the Board:

GLENN E. NIELSON, *Director*

F. R. MATTHEWS, *Director*

Liabilities

	1966	1965
Current Liabilities		
Notes payable to banks	$ 1,200,000	$ —
Accounts payable and accrued expenses	8,469,161	7,093,166
Dividends payable on preferred shares	266,447	51,947
Current portion of long term debt	4,448,087	2,118,381
	14,383,695	9,263,494
Note payable (Note 5)	3,000,000	—
Total current liabilities	17,383,695	9,263,494
Deferred Income (Note 3)	1,313,523	3,258,073
Long Term Debt (Note 4)	50,973,319	40,571,595
Note Payable	—	3,000,000
Capital and Surplus		
Minority shareholders of consolidated subsidiary companies		
Preferred shares (Note 6)	6,724,800	7,246,600
Common shares	273,522	286,908
Surplus	808,883	1,085,849
	7,807,205	8,619,357
Shareholders of Parent Company (Notes 7 and 8)		
Cumulative, redeemable, preferred shares par value $50 each; Authorized 1,000,000 shares;		
Series A, 6%, issued and outstanding 67,163 shares; 1965, 69,263 shares	3,358,150	3,463,150
Series B, 6%, issued and outstanding 188,240 shares; 1965, 194,150 shares	9,412,000	9,707,500
Series C Convertible, 5¾%, issued and outstanding 300,000 shares	15,000,000	—
Common shares, par value $1 each; Authorized 10,000,000 shares; Issued and outstanding 6,431,476 shares; 1965, 6,243,843 shares	6,431,476	6,243,843
Undistributable capital surplus arising from purchase and redemption of preferred shares	798,000	397,500
Other paid in capital	18,881,614	18,596,275
Retained earnings	10,103,187	7,038,717
	71,791,632	54,066,342
Commitments and Contingencies (Note 9)		
	$141,462,169	$110,159,504

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1966 (with comparative figures for 1965)

	1966	1965
INCOME		
Sales and operating revenues (including $7,290,373 in 1966 from steel fabricating and warehousing)	$66,942,900	$53,237,265
DEDUCTIONS		
Cost of sales and operating expenses (including $5,990,921 for steel fabricating and warehousing)	40,927,038	32,447,001
Selling, general and administrative expenses	6,536,132	5,096,919
Interest (net of interest income of $516,337 in 1966 and $574,885 in 1965) (Note 4)	3,068,147	2,101,170
Miscellaneous — net	(376,805)	213,474
Depreciation	5,318,181	4,696,762
Depletion	4,001,029	2,621,751
Foreign exploration costs	276,299	106,525
Minority interests in earnings of subsidiaries:		
Preferred share dividends	450,469	478,520
Profits	229,623	373,030
	60,430,113	48,135,152
NET EARNINGS (Note 10)	$ 6,512,787	$ 5,102,113

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENT OF SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1966

	Other Paid in Capital	Retained Earnings
Balance at beginning of year (Note 8)	$18,596,275	$ 7,038,717
Add:		
Excess of consideration received over par value of common shares issued	408,377	
Net earnings for the year		6,512,787
Sundry credit	15,871	
	19,020,523	13,551,504
Deduct:		
Cash dividends on preferred shares		1,331,120
Cash dividends on common shares		960,552
Provision for redemption of preferred shares		419,475
Costs applicable to issue of Series C preferred shares		671,439
Sundry debits		65,731
Par value of 138,909 common shares issued to two persons pursuant to the terms of an agreement dated May 19, 1960 covering the exchange of their shares of Husky Oil Company	138,909	
	138,909	3,448,317
Balance at end of year	$18,881,614	$10,103,187

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The consolidated financial statements include all subsidiary companies and include the operations of Gate City Steel Corporation from August 31, 1966, the date it became a subsidiary. A 50% interest had been held in this company since July 1, 1963, and an additional 32% was acquired on August 31, 1966. The accounts of United States subsidiaries are included at $1.00 U.S. = $1.00 Canadian except for Canada - United States intercompany accounts where an amount of approximately $179,000 representing foreign exchange is carried under the heading Other Intangible Assets.

2. Property, plant and equipment is carried at cost (except for certain petroleum and natural gas properties which were written down at January 1, 1958) less accumulated depreciation of $39,496,159 and depletion of $12,312,132.

   The cost of certain oil and gas properties includes the amounts of production payments payable solely from production. Since the production payments are considered liens against the properties and are not direct liabilities, the unpaid balances are shown as deductions from the property, plant and equipment accounts on the consolidated balance sheet. Production income dedicated to these payments is included in the earnings statement on a gross basis so as to reflect gross income and all expenses applicable to the properties. An alternate method of accounting for such production payments (the net method) includes in cost of the properties the purchase price exclusive of the amounts of retained production payments and does not include in the earnings statement, production income dedicated to the payments.

   Selection of the net method of accounting for retained production payments would have reduced the following accounts on the statement of earnings by the amounts shown:

Sales and operating revenues	$1,519,000
Depletion	972,000
Interest	438,000
Net earnings	109,000

   Effective October 1, 1966 the estimated useful life of refinery facilities was increased from 10 to 16 years. This change resulted in a decrease in the provision for depreciation of such facilities of approximately $110,000 for the last three months of the year.

3. Deferred income at December 31, 1966, consists of the remaining unpaid principal amount of a production payment sold in 1964.

4. Subsequent to December 31, 1966 the Company sold $20,000,000 principal amount 6¾% Sinking Fund Debentures Series B with stock purchase warrants, maturing February 1, 1987. Long-term debt (partly secured) at December 31, 1966 consisted of:

6% Sinking Fund Debentures Series A due November 2, 1984	$18,428,000
Production Loans	
5½% to 6¼% secured notes and debentures maturing from 1970 through 1975 (of which $25,070,430 is payable in U.S. funds of $24,556,964)	25,802,430
6% Secured Instalment Note due December 31, 1970 (payable in U.S. funds of $1,000,000)	1,000,000
5½% to 6⅛% Secured Lease Purchase Contracts due 1970 and 1975 (payable in U.S. funds of $6,146,765)	6,146,765
Mortgage, no interest, due December 1, 1968 (payable in U.S. funds of $927,965)	927,965
Other secured notes and contracts of varying maturities (payable in U.S. funds of $822,312)	822,312
Unsecured notes and contracts of varying maturities (including $1,444,162 payable in U.S. funds of $1,373,368 and $169,680 payable in U.K. funds of £56,000)	2,293,934
	55,421,406
Less amounts due within one year (including $3,472,803 payable in U.S. funds of $3,425,156)	4,448,087
	$50,973,319

Interest on long term debt in 1966 was $3,471,388.

The indentures attaching to the production loans aggregating $25,802,430 require, under conditions specified therein, "mandatory contingent payments" without premium in the inverse order of maturity.

Certain properties and other assets having an aggregate cost of approximately $46,000,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations.

5. The note payable of $3,000,000 represents a loan from a bank due December 15, 1967. Another company pays the interest and may, at its option, substitute itself as lender. Husky has the option to pay the note and participate in the development of certain phosphate deposits which it owns, or sell the properties for $3,000,000 plus 50% of the appraisal value (as defined) in excess of $3,000,000 or the note may be retired under specified conditions and a 25% interest in the deposits conveyed to the other company.

6. Under the terms of issue of preferred shares of subsidiary companies, preferred shares of an aggregate par value of $521,500 are to be redeemed in 1967.

7. During the year the Company sold for cash, 300,000 5¾% Series C Cumulative Redeemable Convertible Preferred Shares of a par value of $50 per share. Also during the year common shares of a par value of $1 per share were issued as follows:

	Shares	*Credited to Capital Stock*	*Credited or (Charged) to Other Paid in Capital*
On the exercise of stock purchase warrants	3,238	$ 3,238	$ 25,964
On the exercise of stock options	20,540	20,540	86,180
Under the terms of an agreement made in 1960 between Mr. and Mrs. Glenn E. Nielson and the Company	138,909	138,909	(138,909)
In partial satisfaction of the purchase price of common shares in Gate City Steel Corporation	24,946	24,946	296,233
	187,633	$187,633	$269,468

The terms of issue of the preferred shares provide for annual sinking fund provisions sufficient to retire 2,100 Series A shares at $53.50 per share, 5,850 Series B shares at $52.50 per share and 9,000 Series C shares at $50.00 per share.

At December 31, 1966, there were stock purchase warrants outstanding giving the holders the right to purchase 233,872 common shares as follows:

37,500 Series B at $24.00 per share expiring August 1, 1967
196,372 Series D at prices escalating from $10.50 to $16.50 per share expiring June 30, 1974

Subsequent to December 31, 1966, an additional 240,000 Series D stock purchase warrants will be attached to the $20,000,000 Series B Sinking Fund Debentures when issued in definitive form. At December 31, 1966 common shares were reserved for issue pursuant to a share option plan for officers and employees. Information as to options exercised during 1966 is as follows:

	Number of Shares	Option Price per Share
Under option at December 31, 1965	203,190	$4.10 to $12.94
Options exercised	20,540	$4.10 to $ 6.77
Under option at December 31, 1966	182,650	$4.10 to $12.94

These options are or become exercisable during the years 1967 to 1975.

At December 31, 1966, 1,000,000 common shares were reserved for exercise of the conversion privilege attaching to the 5¾% Series C Cumulative Redeemable Convertible Preferred Shares. The conversion price is $15.00 per share to May 9, 1971 and $17.50 per share thereafter to May 9, 1976.

8. The shareholders of the Company by resolution dated April 30, 1964, approved the appropriation of $6,425,032 from other paid in capital at January 1, 1963 which amount was used to eliminate the consolidated deficit as of that date.

9. Under the terms of an agreement dated July 16, 1966, Husky Oil Company is committed to purchase additional non-voting shares of an affiliated company in January, 1969, for a consideration of approximately $2,292,000.

   The Company and its subsidiary companies have entered into long term agreements to lease items of property, plant and equipment at fixed annual rentals which aggregate approximately $1,200,000. Husky Oil Company has guaranteed that it will use certain pipelines owned by related interests to the extent that the tariffs on annual throughput will approximate $500,000. Tariffs paid for 1966 exceeded this amount. The subsidiary has the right to purchase the pipelines at depreciated cost, as defined, at any time after October 31, 1967.

   A subsidiary company has entered into contracts for the construction of an offshore drilling unit at a cost of approximately $10,000,000 of which approximately $1,000,000 was expended to December 31, 1966.

   Certain other commitments or contingencies exist which may involve costs or losses arising in the ordinary course of business.

10. No provision has been made for federal taxes on income since neither the Company nor its subsidiaries has any liability for such taxes.

11. In 1966, the total remuneration received as a director, officer or employee by directors of the Company was $96,000.

12. As a result of a reorganization subsequent to December 31, 1966, the minority stockholders of Rimrock Tidelands, Inc. are entitled to receive $11 per share from that company for their shares. At December 31, 1966, there were 123,587 shares owned by minority holders.

AUDITORS' REPORT to the Shareholders

We have examined the consolidated balance sheet of Husky Oil Canada Ltd. and subsidiaries as of December 31, 1966 and the consolidated statements of earnings and surplus for the year ended on that date. Our examination of the financial statements of Husky Oil Canada Ltd. and those subsidiaries of which we are auditors was made in accordance with generally accepted auditing standards, and accordingly included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of one subsidiary company.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and surplus present fairly the financial position of the company and subsidiaries at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.

Chartered Accountants.

Calgary, Alberta.
February 24, 1967.

Financial and Operating Summary

FINANCIAL (thousands of dollars)	1966	1965	1964	1963	1962	1961	1960
Gross operating income	$66,943	$53,237	$50,524	$45,979	$40,708	$37,865	$38,271
Costs and operating, selling and general expenses	47,463	37,544	38,416	36,881	32,964	31,642	31,755
Interest(net of interest income)	3,068	2,101	1,479	1,432	1,348	1,604	1,373
Miscellaneous - net	(376)	213	118	(207)	(100)	(540)	66
Depreciation, depletion and amortization	9,319	7,318	6,100	5,071	4,305	4,637	4,415
Exploration costs and overhead	276	107	83	—	1,696	1,230	2,916
Minority interests in earnings of subsidiaries	680	852	809	569	396	461	(39)
	$60,430	$48,135	$47,005	$43,746	$40,609	$39,034	$40,486
Net earnings (loss)	$ 6,513	$ 5,102	$ 3,519	$ 2,233	$ 99	$(1,169)	$(2,215)
Financial Position							
Working capital	15,783	12,094	19,404	12,578	11,069	11,851	8,924
Deferred income	1,314	3,258	4,530	1,260	—	—	—
Long term debt	50,973	40,572	43,375	35,501	26,136	28,295	29,686
Preferred shares outstanding, at par value	27,770	13,171	13,568	3,568	3,568	3,568	3,568
Preferred share dividends	1,331	807	514	214	214	214	214
Common shares outstanding, at par value $1 per share	6,431	6,244	6,208	6,169	6,123	6,091	5,842
Earning per common share after preferred dividends	81¢	69¢	48¢	33¢	(1¢)	(21¢)	(41¢)

OPERATING	1966	1965	1964	1963	1962	1961	1960
Production — Daily Average							
Net crude oil and equivalent gas production — barrels	25,532	20,181	16,765	12,920	11,088	10,074	9,477
Crude oil and gas liquids production — barrels	22,178	17,463	14,312	10,796	9,163	8,697	8,674
Natural gas production — MCF	44,518	35,173	32,000	27,998	25,521	18,573	11,435
Refining and Marketing — Daily Average Barrels							
Crude oil processed	18,387	16,929	15,789	17,263	17,231	16,396	14,000
Refined product sales	19,323	18,295	18,343	19,302	17,293	16,100	15,921

Mr. Lloyd Taggart - *Cody, Wyoming*

We announce with regret the retirement of our oldest director in years of service, Mr. Lloyd Taggart, who has been active in Husky affairs and served as a director of the Company since 1944. His wise and common sense judgement helped to guide Husky through its early and at times difficult periods.

Mr. Taggart spent most of his seventy-five years in Wyoming where he achieved prominence as a rancher, highway contractor and in recent years has been active in the banking business. He has been most active in public affairs at the community, state and national levels.

He has lived by a creed which more of us could well adopt. This is that, if anyone is fortunate enough to earn more than a living, he owes a service to his fellow man. His adherence to this creed and his many services to the public were recognized in 1962 when he was honored as Wyoming's Businessman of the Year.

OFFICERS

Glenn E. Nielson	*President*
Arnold Larsen	*Senior Vice President*
J. D. Winzenried	*Senior Vice President*
T. G. Wise	*Senior Vice President*
H. B. Brummond	*Vice President*
S. J. Gardner	*Vice President*
R. M. McManis	*Vice President*
M. F. Westfall	*Vice President*
D. H. Flora	*Secretary*
D. R. Hagerman	*Treasurer*
L. E. Saunders	*Controller*

S. L. Cate	*President, Gate City Steel Corporation*
M. R. McArthur	*Chairman of the Board, Rimrock Tidelands, Inc.*
J. E. Nielson	*President, Husky Briquetting, Inc.*

BOARD OF DIRECTORS

GLENN E. NIELSON,
Cody, Wyoming
President of
Husky Oil Canada Ltd.

F. R. MATTHEWS, Q.C.
Calgary, Alberta
Partner, Law firm of
MacKimmie, Matthews,
Wood, Phillips & Smith

G. S. ECCLES,
Salt Lake City, Utah
President and a Director of
First Security Corporation
and of First Security Bank
of Utah

J. WADDY BULLION,
Dallas, Texas
Senior Member, Law firm of
Thompson, Knight,
Simmons and Bullion

J. K. MCCAUSLAND,
Toronto, Ontario
Vice President and a Director
of Wood, Gundy Securities
Limited

G. E. ROARK,
Dallas, Texas
President and a Director of
James A. Lewis
Engineering, Inc.

H. H. MILLAR,
Edmonton, Alberta
President and a Director of
Western Construction and
Lumber Co. Ltd.

A. P. FRAME,
Toronto, Ontario
President, A. P. Frame
Limited, Petroleum and
Petrochemical Consultants

J. L. KALB,
Wickenburg, Arizona
Petroleum (Management)
Consultant

P. R. PAYN,
Baltimore, Ontario
Retired Investment
Dealer

LLOYD TAGGART,
Cody, Wyoming
Chairman of the Board of
Taggart Construction
Company

OFFICERS

GLENN E. NIELSON .... *President*

ARNOLD LARSEN .... *Senior Vice President*

J. D. WINZENRIED .... *Senior Vice President*

T. G. WISE .... *Senior Vice President*

H. B. BRUMMOND .... *Vice President*

S. J. GARDNER .... *Vice President*

R. M. MCMANIS .... *Vice President*

M. F. WESTFALL .... *Vice President*

D. H. FLORA .... *Secretary*

D. R. HAGERMAN .... *Treasurer*

L. E. SAUNDERS .... *Controller*

S. L. CATE .... *President, Gate City Steel Corporation*

M. R. MCARTHUR .... *Chairman of the Board, Rimrock Tidelands, Inc.*

J. E. NIELSON .... *President, Husky Briquetting, Inc.*

HUSKY

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HUSKY OIL
Canada Ltd.

Quarterly Report
To Shareholders

Six Months Ended
June 30, 1966

815 Sixth Street S.W. Calgary, Alberta

HUSKY

To the Shareholders:

The payment of an initial cash dividend of 15 cents per common share was declared for the last half of the year by the Husky Oil Board of Directors at their regular meeting held in Cody, Wyoming on August 10 and 11. Payment of the dividend will be made on September 30 to common shareholders of record as of September 15.

Both management and employees are gratified that the Company's growth and future promise have justified this significant declaration of the first cash dividend on Husky common shares by the Board of Directors.

During the first six months of 1966, Husky Oil maintained the strong growth trend of the past several years. Consolidated net profit was $2,385,000 which was 24 per cent above the profit of $1,925,000 for the same period last year. Cash flow rose 23 per cent to $7,203,000, and gross revenues of $28,013,000 were up 15 per cent. Earnings for the six months were equivalent to 29 cents per common share, compared to 24 cents in 1965.

A $15,000,000 issue of Series C Convertible Preferred Shares in the Company was sold during May and received a good reception from investors. The issue carries a dividend of 5¾ per cent and is convertible into common shares at $15 per share during the first five years and at $17.50 per share for an additional five years. The Company has the option to call this issue at par in whole or in part at any time.

HUSKY OIL
Canada Ltd.
And Subsidiaries

Financial and Operating Summary
For the Six Months Ended June 30, 1966
(with comparative figures for 1965)

Financial	1966	1965	% Increase (Decrease)
Sales and operating revenues	$28,013,000	$24,437,000	15
Deductions			
Cost of sales and operating expenses	16,296,000	14,799,000	10
Selling, general and administrative expenses	2,876,000	2,519,000	14
Interest (net of interest income of $218,000 in 1966 and $359,000 in 1965)	1,295,000	915,000	42
Miscellaneous — net	117,000	113,000	4
Depreciation and amortization	2,612,000	2,261,000	16
Depletion	1,851,000	1,442,000	28
Foreign exploration costs	232,000	—	—
Minority interests in subsidiaries			
Preferred share dividends	226,000	243,000	(7)
Profits	123,000	220,000	(44)
	25,628,000	22,512,000	14
Net earnings	$ 2,385,000	$ 1,925,000	24
Preferred share dividends	$ 515,000	$ 407,000	27
Earnings per common share	29¢	24¢	21
Common shares outstanding	6,392,345	6,228,243	

Operating *(Daily Average)*	1966	1965	% Increase (Decrease)
Crude oil and equivalent gas production (barrels)	24,674	19,829	24
Crude oil and gas liquids (barrels)	21,348	16,917	26
Natural gas (Mcf)	43,823	37,718	16
Lloydminster Blend sales (barrels)	12,901	8,221	57
Refinery throughput (barrels)	16,009	16,508	(3)
Product sales (barrels)	16,641	15,676	6

Husky's 50% share of the operating results of properties purchased from International Oil & Gas has been included from January 1. Oil committed to the production payment sold by International has been included. Figures are unaudited and accounts of U.S. subsidiaries are included at $1 U.S. = $1 Canadian.

Acquisition and Exploration

During the first half of this year, 33 "slim-hole" stratigraphic tests were drilled in the Lloydminster area. Twelve of these tests indicated the presence of oil.

The Company also participated in the drilling of 19 other exploratory wells, six of which were completed as producers. Of these six wells, four in the Lloydminster area were completed as oil wells, one was a gas well in the Kindersley, Saskatchewan area, and one successful well resulted from Rimrock's participation in an oil discovery in Yazoo County, Mississippi.

Husky has recently acquired a one-third interest in Curtis Incorporated, owner of 54 per cent of the common shares of Empire State Oil Company of Thermopolis, Wyoming. Curtis Incorporated is a holding company formed in 1935 by the late H. D. Curtis and his family. Empire State Oil has substantial oil and gas producing properties in the Big Horn Basin of Wyoming, where Husky's Cody Refinery is located.

The purchase of a 50 per cent interest by Husky in the properties of International Oil & Gas Corporation has been concluded. Husky's share of this oil and gas production averaged 2,000 barrels per day.

Production

Production of oil and gas expressed as equivalent barrels increased 24 per cent to an average of 24,674 barrels per day compared with the 19,829 barrels averaged daily during the same period of 1965. Contributing to this increase were continued development in the Lloydminster area; waterflood

build-up in the Wainwright field; Husky's 50 per cent interest in production from the International Oil & Gas properties; and development and waterflood improvements in the Oregon Basin, Pitchfork, and Half Moon fields in the Big Horn Basin of Wyoming. In accounting for production from the International properties, the oil committed to the production payment sold by International has been included.

Sales of the Lloydminster blend of crude and condensate averaged 12,901 barrels per day, an increase of 57 per cent over the 8,221 barrels daily average for the first half of last year.

Refining and Marketing

Total refinery throughput was 16,009 barrels per day, down slightly for the first six months because of earlier shutdowns for turnaround at Husky's three refineries this year. Throughput averaged 16,508 barrels per day for the same 1965 period. Net sales of products increased six per cent to 16,641 barrels per day. This resulted from increased light oil sales and earlier movement of asphalt.

Husky Briquetting, Inc.

The results achieved during the first half of this year by Husky Briquetting, Inc., were better than for any similar period in its history. Operating results at all plants continued to show improvements. Total sales for the period were up 43 per cent at $1,441,000, and over-all briquetting operations reflected a profit.

Rimrock Tidelands, Inc.

Net profit of Rimrock Tidelands, Inc., for the first six months of this year was $540,000, a slight decrease from the same 1965 period. This decrease was caused by foreign exploration write-offs on the Tunisian operation. Rimrock and Husky permits in Tunisia have now been allowed to expire, as no commercial production was found.

Husky has increased its ownership in Rimrock from 77 per cent to approximately 93 per cent through purchase of additional shares from minority shareholders. This percentage of ownership now permits consolidation of Rimrock's financial results for U.S. tax purposes.

Gate City Steel Corporation

Results of Gate City Steel operations are not consolidated, as Husky holds only 50 per cent ownership. However, Gate City's net earnings before income taxes increased 40 per cent to $545,000, compared with $389,000 during the first six months of last year.

The management of Husky is most optimistic concerning the Company's future and confidently expects that the present growth pattern will continue throughout 1966 and into the foreseeable future.

Sincerely,

Glenn E. Nielson

GLENN E. NIELSON, *President*

August 12, 1966.